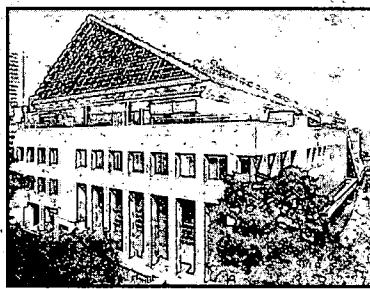


# THE TOKYO ECONOMIC SUMMIT

JULY 7-9, 1993



# SOMMET ÉCONOMIQUE DE TOKYO

7-9 JUILLET 1993

## CANADA'S ECONOMIC SITUATION AND OUTLOOK

### HIGHLIGHTS

- Growth is picking up in Canada, boosted by dramatic improvements in our competitiveness.
- Low inflation, supported by an impressive cost performance, is allowing steady declines in interest rates.
- Major international forecasters expect Canada to lead the G-7 in growth of both output and employment in 1993 and 1994.

### ECONOMIC SITUATION

- Real GDP growth strengthened to 3.8 per cent (at annual rates) in the first quarter of this year from 2.6 per cent growth in the fourth quarter of last year. Real GDP in Canada was only slightly below its pre-recession peak in the first quarter and will surpass that peak by mid-year.
- The recovery has been led by external demand. This reflects the strengthening U.S. economy and the dramatic improvement in Canada's competitiveness due to a slowdown in the rate of growth of unit labour costs and a depreciation of our dollar.
- Domestic demand growth has been weak. Restructuring and downsizing in the private and public sectors have slowed employment growth and dampened confidence in the short term. However, robust gains in productivity are providing a solid foundation for future growth and job creation. Productivity growth averaged 1.6 per cent (at annual rates) from the second quarter of 1991 to the first

quarter of this year. This is well above the 0.5 per cent average annual rate of productivity growth over the previous six years.

- Canada's inflation and underlying cost performance continues to be remarkable.
  - Inflation as shown by the consumer price index was 1.5 per cent in 1992, the lowest in the G-7 economies. The rate rose only marginally, to 1.8 per cent on a year-over-year basis in May, despite a significant decline in the value of the Canadian dollar over the past year.
  - Private sector wage settlements were below 1 per cent on average over the first four months of this year.
- Moderate wage growth and improved productivity performance have reduced unit labour cost growth to below 1 per cent in the last two quarters. These domestic cost improvements will provide a lasting boost to the competitiveness of our exports.
- Low inflation pressures have allowed interest rates to decline substantially, which should lead to a strengthening in domestic demand growth in the near term. Despite the volatility in financial markets in late 1992, short-term interest rates have returned to the 20-year lows reached last September.
- Recent data indicate that Canada is moving in the right direction — healthy growth without inflation. This performance should bolster confidence in the Canadian economy among Canadian and foreign investors.



CANADA